

Forest Sector Workgroup—Avoided Conversion Subgroup
Discussion points following Subgroup conference call 7/28/08

**“Avoided Forest Conversion through Smart Growth Offset Program”
(7/25/08 version)**

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For Information:

Differences from the 7/9 version of the smart growth proposal

1. The state would bundle emission reductions and sell them on the national or international offset market.
2. Avoided conversion emission reductions would be done on a project-by-project basis. This would allow third party verification to ensure additionality. (A county-based or regional approach based on average conversion rates was seen by some as lacking credibility due to the difficulty of separating confounding factors affecting conversion rates.)
3. Under this program, development rights could be transferred to Urban Growth Areas only. Consideration of on-site clusters and conservation villages is postponed.
4. The state would identify the baseline based on “business-as-usual” county-by-county conversion trends.
5. Revenue from state’s sale of offsets would be distributed back to local governments in proportion to their actual emission reductions from TDRs/conservation easements.
6. No forward credits; credits for actual reductions only.
7. The state would monitor overall forest conversion trends over a trial period (e.g., 10-15 years) and terminate or improve the program based on actual outcomes.
8. There would be no set-aside/auction of emission allowances for purposes of raising revenue for this program.

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Policy Questions

1. **Scale of Carbon benefit?** From a strictly carbon perspective, should the workgroup recommend development of offsets or other credits that will make a significant impact on the State’s goal to reduce greenhouse gas emissions? For example, reducing emissions from conversion was the highest priority recommendation from last year’s forestry TWG. Some aspects of the current (7/25) proposal may act in a way that provides only a modest contribution. Would it be appropriate to also include, or at least point out, features that could lead to a larger greenhouse gas reduction?
 - a. **Limit TDR receiving areas to Urban Growth Areas?**
 - i. Can/should (1) on-site clusters or (2) conservation villages be considered separately from each other?
 - ii. If so, can/should one or the other be added for consideration as a receiving area for development rights?
 - iii. Why wouldn’t RGGI’s policy work—i.e., allowing offset credit for clustered development that reduces the amount of forestland lost per housing unit?

Discussion. Should the workgroup include, or at least point out, multiple options that reduce the development footprint and retain forest cover, rather than limiting those options? A case could be made, for example, that there may be more demand for development outside urban growth areas, where development is now likely to occur as sprawl, such as in 1:20 rural development. Would changing that pattern to denser clusters, for example, be a carbon improvement, even though there’s not a “zero footprint”? While not attempting to drive land use decisions solely on

the basis of carbon storage considerations, should we point out the carbon benefits of incentivizing this type of development as a better alternative to sprawl from a carbon standpoint?

2. **Use of state revenues?** How should revenue from the state's sale of offsets be used?
 - a. Seed money to local governments?
 - b. Ongoing operational money to local governments?
 - c. Additional incentive for landowners to not convert? (i.e., in addition to revenue from sale of development rights)
3. **Landowner amendment.** Landowners proposed language such as the following be added to the earlier version of the proposal: "Participating jurisdictions may not implement regulation that devalues property as a means of achieving emissions reductions." Can we find common ground on how to address this in the proposal?
4. **Which local jurisdictions would be eligible for state funding?** It appears that only local governments in receiving areas are to be incentivized by offset revenues. Is this the intent of the proposal as currently written? If so, should the workgroup consider whether local governments in sending areas may also need incentives?

Discussion: Some believe sending areas will be giving up the prospects of higher property tax revenues in areas that might have been developed, where the development will likely occur in another jurisdiction (especially if restricted to UGAs). Other evidence¹ suggests that working lands, even under lower rates for current use taxation, bring in, on average, more revenue than they demand in costs of services that the county must provide to those lands. In contrast, development of working lands or green space demands a suite of new services that often costs the county more to provide than they receive back in taxes from the new development.
5. **Permanence.** Is a perpetual easement necessary to provide offset "permanence"? Requiring a perpetual easement is likely to limit participation by sending landowners. Providing for a long term (100 years?) rather than perpetual easement will likely address this concern without having negative carbon consequences. (If technological change in the capped emitting sectors will drive long term carbon emission reductions, then reductions now covered by offsets may not need offset coverage to take place in the future.)
6. **Other source of revenue.** Can/should this proposal also mention the possibility of using potential emission allowance auction revenue as a source of market incentives to facilitate the program?

Questions for clarification

1. **Baseline.** How is a state-developed baseline on conversion trends, to be used to evaluate project-specific additionality, any better than a regional or county-specific baseline, which is said to be problematic from an additionality and/or leakage standpoint?
2. **Additionality test.** What additionality test should apply? And where does it apply (e.g., sending area, receiving area; to the transaction as a whole)?
 - a. How do state payments of offset revenue to local governments to take measures to promote TDR demand in receiving areas satisfy the "but for" additionality test, since there's likely to be a broad suite of inducements provided to local governments and receiving area developers for this purpose? If a "but for" additionality test is used to disqualify other aspects of earlier proposals for avoided conversion, shouldn't it be used in a consistent way in this proposal? ["But for" additionality, also known as financial additionality, means that without this specific payment, the activity would not occur.]

¹ See American Farmland Trust: http://www.farmlandinfo.org/documents/27757/COCS_09-2007.pdf.